

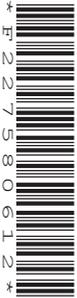
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AS GCE BUSINESS STUDIES

F292/01/CS Business Functions

PRE-RELEASE CASE STUDY

JUNE 2012



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Tipton Sweets Ltd (TSL)

Tipton Sweets Ltd (TSL) specialises in the manufacture and distribution of high quality glucose-based sweets and sugar-free confectionery. It has a wide range of different products (see Appendix 1), most of which are produced in its factory in Cheshire. TSL sells throughout the UK and to over 60 countries around the world. Exports account for over 30% of TSL's turnover. The current Managing Director, Matthew Tipton, is the third generation owner of the family sweet-making business, set up by his grandfather in 1922. He now wants to produce an entirely new range of confectionery which will be attractive to the younger market. This is all part of Matthew's current objective to see that TSL evolves into a more 'up-to-date' business. 5

"Since I took over the business three years ago, I've realised that we have to move forward", says Matthew. "It's one thing to have a great history, but we need to start changing if we are to survive. Yes, we are a family firm, so we cannot change too much. But, if we stand still there will be no business to pass onto the next generation of Tiptons!" 10

TSL does have an impressive history. In the 1920s, glucose was widely seen as one of the best natural medicines to aid recovery. TSL developed a method to produce 'boiled sweets' using only natural flavours and colours. Within three years of setting up the business, it was selling to over 75% of the country, mainly through chemists and pharmacies. Production took place in a 35,000 sq ft factory and nearly 300 people were employed. The sweets were mainly sold in travel tins which TSL managed to make airtight by the 1950s, so that the sweets would remain fresh. This led to the sweets being sold as 'Travel Sweets'. (All sweets used to contain barley sugar, which is medically proven to help with travel sickness.) 15 20

Nowadays, TSL still sells its own-label products mainly through chemists and health food shops, as well as garage forecourt shops and high-class confectionery shops. With rising automation, TSL now employs around 50 staff and annual sales turnover is steady at around £3.5m. Over two million sweets are made every day from 200 separate boilings. Gross profit margins are around 45%, but net profit margins rarely exceed 5%. 25

As part of the planned changes, Matthew is meeting with his Finance Manager, Hamza Bencheriff, to discuss the purchase of a new production line which will work alongside TSL's current production line. This will help to increase productivity and allow new innovative products to be produced which are not possible with the current technology.

"I think this is a really exciting project," stated Matthew. "Not only can we produce new products but, more importantly, we can also produce smaller sized tins of sweets which are just not possible on the current production line." 30

"But this is a high risk strategy," replied Hamza. "This new production line is going to cost £60,000 and we don't know how successful the idea of smaller tins will be, and there are human resource issues to take into account." 35

"Look at these projected figures that I have put together showing the impact which a new production line will have on our business numbers," said Matthew (see Table 1).

Table 1 – Output and production data

	<u>Current production</u>	<u>With new production line</u>
Average output (sweets per day)	2.1m	3.5m
Boilings per day	200	250
Workers per shift	20	30
Gross profit margin	45%	48%
Net profit margin	5%	6%

“Well, speaking as your financial expert, I insist that we set ourselves some targets which this investment needs to achieve, before I am happy to sanction it,” argued Hamza. “I suggest we need to see a payback period of no longer than three years and an accounting rate of return (ARR) of at least 12%.” 40

“That seems fair enough in the current economic climate,” agreed Matthew. “I will leave it to you to see how close the project comes to achieving these targets, but there are more than financial considerations involved in making this decision.”

TSL currently operates two shifts a day, with the factory operating from 6.00 a.m. until 6.00 p.m. Any changes to this are unlikely in the near future as there are logistical problems of operating a night shift on the current site. Moving to another site to increase production capacity is also not an option as, although the current employees are very loyal, few would want to move from the current factory location. TSL’s Production Manager, Penny Bagley, agrees with Matthew that growth is only possible with the introduction of a new, additional production line. 45 50

Currently, all products manufactured by TSL are made using a batch process. It begins with the basic ingredients of sugar, glucose or corn syrup and water. This mixture is boiled to 136°C (106°C for sugar-free sweets) and then it is pulled through a vacuum pump and shaped before being cooled, flavours and colours are also added at this stage. The chocolate centred varieties have molten chocolate pumped into the centre of the sweets while they are being shaped. Once this part of the process has been completed, the sweets move onto a semi-automated tinning line. 55

“We are committed to providing the highest level of quality in our sweets,” explained Penny to a visiting potential new trade customer. “As a business we trade solely on quality, which is why we are looking to introduce even more quality initiatives.”

Later on, Penny was chatting with Matthew about the positive feedback she had received from her visitor. 60

“He certainly seemed interested in buying from us in the future. He represents a very large group of petrol stations, including motorway service stations, and really liked our range of products and our focus on quality. He was just slightly concerned that we could deliver in the quantities he was looking at and at a competitive price,” stated Penny. 65

Another advantage of the new production line would be that it could produce smaller tins of sweets. Most of TSL’s sweets currently sell in either 175 g or 200 g tins or tubs. This relatively large size of container is preferred by most of TSL’s current UK customer base, which is mainly aged over 40. However, one of the objectives set by Matthew for TSL’s Marketing and Sales Manager, Izak Reid, is to reduce the average age of the firm’s customers, which will require producing and marketing sweets to an entirely new and younger market. To do this, Izak knows that he has to tempt people in their 20s into the habit of buying tins of travel sweets. He will have to cater for their different tastes. 70

Izak has evidence that the younger generation does not spend as much time looking at products in shops. The 200 g tins are too large for younger shoppers and are associated with the sort of product bought by their grandparents. Izak thinks that a smaller 50g tin is much more likely to be bought by younger customers on impulse, who may then be willing to buy other TSL products in the future. The added benefit of the 50g tins is that Izak is fairly sure, from early market research results, that TSL could charge the same price for them as is currently charged for the larger tins, so that TSL would be able to work on a much higher profit margin. 75 80

TSL also sells a highly saleable range of different sweets (see Table 2). As well as the tinned travel sweets, sold under the 'Tipton Sweets' brand name, TSL sells the same sweets in many of the well known high street stores across the UK under the retailer's own label brand name. In addition, all of the 200g tins can be sold in corporate packaging. TSL also imports a range of over 40 types of sugar-free sweets and 'energy' sweets, which are then bagged in the Cheshire factory. These are popular with health conscious customers and gym members, who particularly like the minimal packaging which means that the sweets can be easily carried when exercising. 85

Table 2 – TSL's product data for 2011

	<u>Tipton Sweets sold in UK</u>	<u>Own label brands</u>	<u>Corporate packaged sweets</u>	<u>Imported sweets</u>	<u>Export sales</u>	<u>Website sales</u>
Percentage of annual turnover	22	30	4	12	31	1
Typical age of customer	50-60	40–60	n/a	30–45	20–30	n/a

TSL exports to over 60 countries and has been exporting for nearly 70 years. This was originally to the then British Empire countries but then to the Far East. In fact, TSL's sweets were among the first English confectionery sold in Japan. This was primarily due to the fact that the product only used natural colours and flavours, which conformed to strict Japanese guidelines. Another reason for TSL's success in Japan is the presentation of the sweets in smart travel tins which have become a low cost status symbol. The products are particularly given as gifts by the younger generation. 90

Most of TSL's travel sweets and imported sweets can now be purchased by anyone using its website. A growing number of individual customers buy relatively small orders via the website, because, in many cases, they cannot find a TSL stockist in the local area. 95

Izak knows that he needs to continue expanding the product range if he is to reduce the average age of the customer base and see an increase in turnover. Travel sweets are a niche market but one which is being increasingly attacked by larger producers using price as the main weapon. Izak is only too aware that it is vital that he recognises and takes advantage of the different characteristics of each market segment to which TSL sells. 100

News of the proposed new production line, and the aim to bring TSL more 'up-to-date', has become common knowledge amongst the workforce. Although no trade unions are represented at TSL, and there is no Human Resource Manager, two of the employees meet informally with Matthew on a monthly basis. This gives the employees a chance to raise any issues and to hear Matthew's plans for the future. At the February meeting, the two employee representatives, Carl Tremarco and Andrea Katsari, were quick to voice their colleagues' worries about the plans for the new production line. 105

"This new production line we are hearing rumours about is very worrying," began Andrea. "It sounds like much of the work is going to be unskilled. We've also heard rumours that you're going to cut out one of the shifts." 110

"I really don't know where you've heard that from," replied Matthew. "Cutting down on output and capacity is the furthest thing from my mind at the moment. I want to see the staff having an easier time on the production line. The new one will be much simpler to use and less dangerous. You know how committed I am to improving the standard of living of all my employees. Just look at the above inflation pay awards you have all had over the last two years." 115

“Yes, that has really helped, especially during the recent economic problems,” responded Carl. “But, ultimately, there is more to work than the pay packet at the end of the week. Just look at some of these comments I asked everyone to jot down anonymously.” (See Appendix 2.)

“As I’ve said repeatedly,” replied Matthew, “We need to make TSL a more ‘up-to-date’ business. 120 This means not just in terms of products and capital, but also the way in which the managers manage and the workers work. I am well aware that my father and grandfather ran this company in a very traditional way. That was fine in the 20th century but it is not appropriate in the 21st century. I want to see change.”

Matthew left the meeting in a slightly concerned state. When he took over from his father as MD, 125 he thought that he would have more time to let change evolve. However, although the employees seem to be happy with their pay, and recent personnel performance indicators look satisfactory (see Table 3), Matthew has the feeling that staff motivation may be falling. He does not want any problems with the staff, given all the other changes which he is planning.

Table 3 – TSL’s personnel performance indicators

	Absenteeism rate	Labour turnover	Labour productivity growth
2011	5%	10%	4%
2010	3%	5%	-2%
2009	3%	5%	1%
2008	2%	8%	2%

Appendix 1 – Extract from TSL's product portfolio**Traditional travel sweets** (6 × 200g travel tins*)*Available in 9 flavours:*

Barley sugar
Orange & lemon
Grapefruit & lime
Apple & blackcurrant
Sour cherry & cranberry
Forest fruits
Butterscotch
Mocha coffee
Sugar-free citrus fruits

Fairtrade travel sweets (6 × 175g travel tins*)*Available in 4 flavours:*

Mint
Lemon & grapefruit
Mixed fruit
Blackcurrant

Chocolate centred travel sweets (6 × 175g travel tins*)*Available in 3 flavours:*

Mint
Orange
Strawberry

The 'Retro range' (6 × 175g traditionally designed tins)*Available in 4 flavours:*

Lemon & honey
Rhubarb & custard
Mint & ginseng
Melon & apple

Chewy tubs (12 × 200g tubs, designed to fit into car cup holders)*Available in 2 flavours:*

Mixed fruits
Mixed mints

Tins/tubs of sweets are only available in packs of 6 or 12.

* These tins can be produced in specially designed packaging for corporate customers.

Appendix 2 – Anonymous comments from TSL’s workforce

“Why can I never find a manager when I want one?”

“It can be very boring doing the same job everyday”

“I’ve worked here for 14 years but I still have to refer anything I want to change to a manager”

“Too few managers for the size of the workforce”

“Not sure who to speak to or what to do when machinery breaks down”

“Pay’s quite good, but that’s about it”

“There’s a good group of people here, but they could achieve so much more”

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